

Elwood Union Free School District

Internal Audit Report

On Governance and Planning

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Board of Education
Elwood Union Free School District
Elwood, New York 11740

We have been engaged by the Board of Education (the “Board”) of the Elwood Union Free School District (the “District”) to provide internal audit services with respect to the District’s internal controls related to the governance and planning processes.

The objectives of the engagement were to evaluate and report on the District’s internal controls pertaining to the governance and planning processes and to test for compliance with laws, regulations, and the District’s Board policies and procedures.

In connection with the following procedures, we have provided findings and recommendations for the internal controls related to the governance and planning processes. Our procedures were as follows:

- Reviewed the District’s policies, procedures, forms and practices to determine whether the District adopted legally required and recommended policies pertaining to the governance and planning processes;
- Interviewed key District employees involved in governance and reviewed the District’s procedures, forms and practices with regards to budgeting;
- Reviewed and sampled the monthly financial packet submitted to the Board and reviewed financial reports to verify the following:
 - Trial balances were submitted for all funds.
 - Revenue and appropriation status reports were submitted for all funds.
 - Cash flow projections and Treasurer’s reports were submitted for all cash accounts.
 - Fund balance projections were provided to the Board starting in February.
 - Monthly warrants and monthly or quarterly extraclassroom reports were provided to the Board.
- Reviewed the District’s financial statements for the past three years and performed the following:
 - Compared the District’s budgeted expenditures for the fiscal years 2018-2019 through 2020-2021 with actual expenditures to determine if budgeted expenditure amounts are reasonable.
 - Compared the District’s budgeted revenues for the fiscal years 2018-2019 through 2020-2021 with actual revenues to determine if budgeted revenue amounts are reasonable.
 - Verified appropriation of reserves are included as part of the revenue budget.
 - Reviewed the Governor’s executive proposal projections for the District’s state aid revenues and compared projections to the District’s budgeted state aid revenues for reasonableness.
 - Compared actual state aid revenues received to the District’s budgeted state aid revenues in the original budget.

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- Compared actual revenues to actual expenditures for the general fund to determine trends.
- Tested a sample of budget transfers to verify the following:
 - Budget transfers were properly reviewed and approved by the superintendent or their designee in accordance with guidelines stipulated in the Board reorganizational meeting and District policy.
 - Supporting documentation existed to substantiate the budget transfers.
 - Budget transfers were properly coded to the correct general ledger accounts.
 - Budget transfers were not made into non-contingent codes or between non-contingent codes.
- Reviewed the District's website to verify the following:
 - All required comprehensive financial records and other required information is posted to the District's website in a transparent manner, as required by Article 3 of the New York State General Municipal Law. These required records are as follows:
 - Original, Adopted Budget
 - Final Budget
 - External Audit Report and Corrective Action Plan
 - OSC Audit Report and Corrective Action Plan
 - Board Approved Multiyear Financial Plan
 - Revenue and Expenditure Budget to Actual Reports (recommended for additional transparency).
 - Financial information is easily accessible on the District's website.

The results of our procedures are presented on the following pages.

Our procedures were not designed to express an opinion on the internal controls related to the governance and planning processes, and we do not express such an opinion. As you know, because inherent limitations of any internal control, errors or fraud may occur and not be prevented or detected by internal controls. Also, projections of any evaluation of the accounting system and controls to future periods are subject to the risk that procedures may become inadequate because of changed conditions.

We would like to acknowledge the courtesy and assistance extended to us by personnel of the District. We are available to discuss this report with the Board or others within the District at your convenience.

This report is intended solely for the information and use of the Board, the Audit Committee and the management of the District and is not intended to be and should not be used by anyone other than those specified parties.

Very truly yours,

R.S. Abrams & Co., LLP

R.S. Abrams & Co., LLP
July 21, 2022

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OVERVIEW

Based upon our interviews and observations, we have provided an overview of the District's governance and planning procedures as follows:

The District has four schools in operation within the District. The District's budgeted expenditures for the 2021-2022 fiscal year were \$66,913,579 and the budget is funded primarily by real property taxes and state aid, which accounted for approximately 95.6% of budgeted revenues.

The District is governed by the Board of Education (the "Board") which is comprised of five elected members. The Board has the responsibility for the general management and control of the District's financial and educational affairs and the Superintendent along with administrative staff is responsible for the day to day operations of the District. The Board also has the responsibility for establishing a good solid internal control environment, which includes adopting effective policies and procedures to guide the overall direction of the District. Additionally, the Board should ensure that audit recommendations are reviewed and the appropriate corrective action plan is implemented.

A school district's financial condition determines its ability to fund and provide public educational services for students within a school district. The Board and management are responsible for effective financial planning and management of District operations. A school district should ensure the budget is prepared, adopted and amended based on reasonable estimates of appropriations and revenues. It is imperative for a school district to follow sound business practices when developing a budget and utilize the best estimates available at the time the budget is adopted. A school district also has the responsibility to taxpayers to estimate realistic expenditures to prevent real property taxes from rising to greater levels than necessary to sustain operations.

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GOVERNANCE

During our review of the Board policy manual, we noted that the District has adopted the following policies that relate to the governance and planning processes:

Voting Procedures

The District's *Voting Procedures* policy, No. 2120.2, describes voting procedures including who is eligible to vote and that voting machines are used for recording the votes on all elections. The policy also states the Board provides the absentee ballots for voting. The absentee ballots are available for the election of members of the Board of Education, the adoption of the District budget and on questions and propositions submitted to the voters of the District.

Annual Budget

The District's *Annual Budget* policy, No. 6100, describes how the budget will be presented and the timeline for the budget. The policy also states which documents must be attached to each annual budget. The Board may not submit the proposed budget or a related proposition to the voters more than twice. If the voters fail to approve the proposed budget or budget proposition after the second submission, or if the Board elects not to put the proposed budget to a public vote a second time, the Board must adopt a contingency budget with a tax levy of 0% increase (i.e., less than or equal to the tax levy of the previous year).

Budget Development

The District's *Budget Planning* policy, No. 6110-R, describes the presentation and organization of the budget proposal and the guidelines and procedures for budget development. It is the Superintendent's responsibility to establish procedures for staff relating to their involvement in the development of the budget proposal. Budget planning should be related to the goals and objectives of the District and its programs. The budget proposal should be a balanced proposal, within the parameters of Board policy and contract conditions, which include provisions for programs to meet the needs of the entire student body, staffing arrangements adequate for proposed programs, maintenance of the District's equipment and facilities and efficiency and economy. The Board is responsible for scheduling special presentations related to the budget to provide in-depth information with regard to certain budget items prior to specific action by the Board.

BUDGET DEVELOPMENT AND ADMINISTRATION

Based upon our interviews and observations, we noted the procedures for budget development and administration to be as follows:

The building budget process begins with each budget starting out as a "rollover budget". Each building administrator is responsible for updating their budget in *nVision*. Budget items are entered into *nVision*, which allows for detailed notes and the ability for. These are used as reference points during budget discussions and are reviewed and either approved or disapproved by the Assistant Superintendent for Business. The Superintendent and Cabinet collaborate with the District administrators to develop the final budget document. The Assistant Superintendent for Business supervises the budget development activities, and together with the Superintendent, reviews the budget requests submitted by the District administration.

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The budget is developed utilizing information from the current and previous year's financial reports, information on current revenues and expenditures, debt service commitments and cash flow data. Other sources of information are derived from collective bargaining agreements, capital plans and any new or pending legislation. Other factors considered in the budget development are economic conditions, interest rates and input from taxpayers and other interested groups.

Budgets are developed in conjunction with a budget calendar, which will vary depending on the time that is required to collect information from other departments, to create a budget, present it to the Board and hold a public hearing. The District's budgets also contain a budget message summarizing the major features of the budget and highlighting challenges that a school district encounters and the related changes that may have been made to the budget compared to previous years.

A Board reviews and adopts a budget document and is responsible for presenting the District's budget, or spending plan to the public to vote. The Board is responsible for estimating the District's revenues and the amount of surplus fund balance, if any, that will be available to help offset the subsequent year's operations and to determine the ending tax levy. Underestimating revenues and/or overestimating expenditures may result in collecting more real property taxes than necessary.

Reliable sources of information that should be utilized in preparing the budget are as follows:

- Modified budgets for the prior and current year;
- Prior year's financial reports;
- Current year revenue and expenditure information to date;
- Debt service requirements, contracts and other commitments;
- Cash flow reports and revenue projections;
- State and federal aid information;
- Collective bargaining agreements;
- Service contracts with other governments;
- Multiyear capital plans;
- New and pending legislation;
- Rate of inflation;
- Current interest rates;
- Tax and debt limitation, if applicable;
- Strategic plans; and
- Input from taxpayers and other interested groups.

The Assistant Superintendent for Business is responsible for developing the District's budget in conjunction with the building principals and administrators. The District utilizes data derived from prior year expenditures, past and future spending trends as well as what they know in terms of rates for the future, current debt costs and the need for building expenditures. Additionally, if a school requests equipment purchases, the school will need to provide quotes or estimates to substantiate the budgeted amount for the purchase.

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In October, the Assistant Superintendent for Business utilizes *Negotiations Manager* within *nVision*. Salaries are rolled into the new year based upon the approved contracts and teachers salaries. The Assistant Superintendent for Business and the District Treasurer will review each expenditure line in the budget to verify the budget reflects projected staffing needs.

The business office prepares a budget development calendar for the Board outlining important dates for meetings and deadlines. The Assistant Superintendent for Business electronically provides each department administrator with a budget book to determine the school budget. The budget is based on enrollment projections and per pupil allocations. The Board of Education has supported budgets with tax levy increases under two percent for six consecutive years, including fiscal years 2019-2020 through 2021-2022, in which the Tax Cap legislation was in effect.

The Assistant Superintendent for Curriculum and Instruction meets with the department administrators to review staffing projections. Once the department administrators determine their budget, it is forwarded to the Assistant Superintendent for Business. Budget and staffing projections are due by the middle of December. However, these projects are updated throughout the budget process.

In early January, the Assistant Superintendent for Business and the department administrators meet to review their respective budgets and negotiate any necessary budget changes. Once the department budgets are finalized, the Assistant Superintendent for Business enters the budget into *nVision* through the *Budget Module*. The Assistant Superintendent for Business projects payroll expenditures by reviewing contracts, collective bargaining agreements and staffing projections with the Assistant Superintendent for Human Resources. If the collective bargaining agreements are being negotiated, the projected payroll expenditure is estimated. The salary and personnel projections are entered into *nVision* by the Assistant Superintendent for Business. Supplies and travel expenditures are projected based on prior year actual expenditures and projected teacher and administrator conferences for the next year. Additionally, the Assistant Superintendent for Business reviews proposal requests to vendors and obtains letters from vendors with their estimated fees.

In January, the Assistant Superintendent for Business reviews the budget with the District Treasurer. During this time, any modifications are determined and updated. The Administrators discuss the tax cap implications to determine if there are any necessary staffing modifications. The reserves and usage of fund balance are also discussed.

In early March, the budget is provided to the Board to analyze each budget line item and specific budget codes. The District holds budget workshops where the public is invited to participate and ask questions. A budget notice is also published in the District's newsletter.

In April, after thorough discussions, the proposed budget is adopted by the Board. The Board holds additional public meetings for the public to ask questions about the adopted budget. The Assistant Superintendent for Business meets with the District's public relations firm to prepare the budget brochure. Once the budget brochure has been prepared by the business office, it is printed and mailed after the public budget hearing but no later than 6 days prior to the budget vote day.

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In May, the budget hearing is held and it provides another opportunity for residents to ask any remaining questions on the proposed budget. This represents the last public meeting before the budget vote. All documents pertaining to the budget are available on the District website. The budget brochure is mailed out to every resident in the District to provide budget and tax cap impact information and basic voting information.

The proposed budget document is available to residents on the District's website and can be obtained by contacting the District Clerk. The budget for the subsequent school year is not official until it has been approved by the community in a public vote. If the community does not pass the budget, the Board and the District can conduct a second vote on the third Tuesday in June. However, the District is not obligated to conduct a second vote. If the District decides to obtain a second vote, the District can put forth the same budget or can opt to reduce the proposed budget in an effort to provide a lower tax impact budget for voters. Additionally, if the proposed budget increases the property tax levy by more than the tax levy limit, it requires a supermajority of 60% of voters in order to pass. If the District opts not to hold a re-vote or if the budget is defeated in a re-vote scenario, the District has to operate on a contingency budget that utilizes the same tax levy as the previous year. Once the budget has been approved, it is exported from the budget module to the accounting module in *nVision*.

IMPLEMENTING AND MONITORING THE BUDGET

Based upon our interviews and observations, we noted the procedures for implementing and monitoring the budget to be as follows:

After the budget has passed, the Board, Assistant Superintendent for Business and department administrators are responsible to ensure services are delivered within budget limits. The progress of actual revenues and expenditures throughout the year are closely monitored to identify any variances that might result in a significant surplus or deficit at the end of the year. Budget reports facilitate the monitoring of the adopted and amended budget. A budget report indicates the original budget; any authorized revisions and the actual transactions to date such as revenues, expenditures and encumbrances listed by account code. Budget reports should be prepared and reviewed at the end of each month. These reports can also be compared to projected estimates of actual revenues and expenditures throughout the year.

Timely discovery of projected budget shortfalls allows a District to resolve the shortfall early when only small adjustments may be needed. If a school district waits until the end of the fiscal year, after the situation becomes more prevalent, a school district may need more drastic actions with fewer options available at that time. Timely detection will enable appropriate action in the subsequent year's budget if it is an ongoing shortfall and not just a temporary situation. Some actions that may be utilized to address the shortfall may be a transfer between appropriations, where appropriate, use of contingency funds (where allowed), appropriation of fund balance (when appropriate) and use of budget notes.

If sufficient revenues will not be derived to finance the total appropriations stipulated in the original budget, the District may reduce appropriations to prevent expenditures in excess of money available. Additionally, a Board may appropriate certain revenues that were not included in the original budget such as grants received from state and federal governments, gifts stipulated for a specific purpose and certain insurance proceeds.

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The District creates purchase orders at the beginning of the year and mass encumbers any estimated commitments. The District reviews and analyzes encumbrances based on prior year spending and expected future expenditures for the remainder of the year. If adjustments are needed, the purchasing agent will determine the necessity and adjust the purchase order.

Encumbrances are reviewed on an ongoing basis when vendor invoices are paid. Requests are submitted by the respective departments to liquidate a purchase order that may no longer be needed. Purchase orders with remaining balances are reviewed at year end for reasonableness. The District also records an expense and accounts payable if an invoice has been received for goods received or services rendered prior to year end.

On a monthly basis, the Assistant Superintendent for Business reviews certain categories on the appropriation status report such as equipment, to ensure purchases are spent accordingly. If there is a risk of over spending a budget line item, a budget transfer is initiated. The Assistant Superintendent for Business reviews revenue shortfalls including state aid figures to determine the amounts that should be received. The Board receives a monthly packet consisting of revenue and appropriation status reports for all funds, Treasurer's reports, cash flow projections and warrants.

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FINDINGS AND RECOMMENDATIONS

Based on our interviews, observations and detailed testing, we provide our findings and recommendations to further strengthen the District's internal controls as they pertain to the governance and planning procedures outlined above.

It should be noted that these recommendations are provided to assist management in improving the accounting and internal controls and procedures as they relate to the District's governance and planning procedures. It is important to note that our findings and recommendations are directed toward improvement of the system of internal controls and should not be considered a criticism of, or reflection on, any employee of the District.

Governance and Control Environment

Procedure Performed: We reviewed the District's policies, procedures, forms and practices to determine whether the District adopted legally required and recommended policies pertaining to the governance and planning processes.

Finding: No exceptions were found as a result of applying these procedures.

Governance and Control Environment

Procedure Performed: Reviewed and sampled a monthly financial packet submitted to the Board during the 2021-2022 fiscal year and reviewed the financial reports to verify the following:

- Trial Balances were submitted for all funds.
- Revenue and appropriation status reports were submitted for all funds.
- Cash flow projections and Treasurer's reports are submitted for all cash accounts.
- Fund balance projections are provided to the Board starting in February.
- Monthly warrants and monthly or quarterly extraclassroom reports were provided to the Board.

Finding: No exceptions were found as a result of applying these procedures.

Budget Development and Administration

Procedure Performed: Reviewed the District's financial statements for the past three years and performed the following:

- Compared the District's budgeted expenditures for the fiscal years 2018-2019 through 2020-2021 with actual expenditures to determine if budgeted expenditure amounts are reasonable.
- Compared the District's budgeted revenues for the fiscal year 2018-2019 through 2020-2021 with actual revenues to determine if budgeted revenue amounts are reasonable.
- Verified appropriation of reserves are included as part of the revenue budget.

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- Reviewed the Governor's executive proposal projections for the District's state aid revenues and compared projections to the District's budgeted state aid revenues for reasonableness.
- Compared actual state aid revenues received to the District's budgeted state aid revenues in the original budget.
- Compared actual revenues to actual expenditures for the general fund to determine trends.

Finding: No exceptions were found as a result of applying these procedures.

Budget Transfers

Procedure Performed: Tested a sample of 15 budget transfers to verify the following:

- Budget transfers were properly reviewed and approved by the superintendent or their designee in accordance with guidelines stipulated in the Board reorganizational meeting and District policy.
- Supporting documentation existed to substantiate the budget transfers.
- Budget transfers were properly coded to the correct general ledger accounts.
- Budget transfers were not made into non-contingent codes or between non-contingent codes.

Finding: No exceptions were found as a result of applying these procedures.

Website Transparency

Procedure Performed: Reviewed the District's website to verify the following:

- All required comprehensive financial records and other required information is posted to the District's website in a transparent manner, as required by Article 3 of the New York State General Municipal Law. These required records are as follows:
 - Original Adopted Budget
 - Final Annual Budget
 - External Audit Report and Corrective Action Plan
 - OSC Audit Report and Corrective Action Plan
 - Board Approved Multiyear Financial Plan
 - Revenue and Expenditure Budget to Actual Reports (recommended for additional transparency).
- Financial information is easily accessible on the District's website.

Finding: We noted the District does not have their Multiyear Financial Plan posted to its website, which is a recommended best practice according to the New York State Office of the State Comptroller.

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Recommendation: We recommend the District develop and finalize a Multiyear Financial Plan, and have the Plan made accessible on their District website.

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CORRECTIVE ACTION PLAN

The District is required to prepare a corrective action plan in response to any findings contained in the internal audit reports. As per Commissioner's Regulations §170.12, a corrective action plan, which has been approved by the Board, should be submitted to the State Education Department within 90 days of the receipt of a final internal audit report.

The approved corrective action plan and a copy of the respective internal audit report should be submitted using the NYSED Business Portal.